

**Isabella County Transportation Commission
Mt. Pleasant, Michigan**

FINANCIAL STATEMENTS

September 30, 2008

Isabella County Transportation Commission

TABLE OF CONTENTS

September 30, 2008

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-iv
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	1
Statement of Revenues, Expenses, and Changes in Fund Net Assets	2
Statement of Cash Flows	3
Notes To Financial Statements	4-11
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Local Revenues	12
Schedule of Expenditures of Federal and State Awards	13
Schedule of Operating and Contract Expenses	14
Nonurban Regular Service Revenue Report (OAR Schedule 4R)	15
Nonurban Regular Service Expense Report (OAR Schedule 4E)	16-17
Nonurban Regular Service Nonfinancial Report (OAR Schedule 4N) (Unaudited)	18
JARC Service Revenue Report (OAR Schedule 4R)	19
JARC Service Expense Report (OAR Schedule 4E)	20-21
JARC Service Nonfinancial Report (OAR Schedule 4N) (Unaudited)	22
Operating Assistance Calculation	23
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	24-25
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	26-27
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	28-29
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	30

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Isabella County Transportation Commission
Mt. Pleasant, Michigan

We have audited the accompanying financial statements of the Isabella County Transportation Commission, a component unit of Isabella County, as of and for the year ended September 30, 2008, as listed in the Table of Contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Isabella County Transportation Commission as of September 30, 2008, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2009, on our consideration of the Isabella County Transportation Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as identified in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Isabella County Transportation Commission's basic financial statements. The accompanying other supplementary information, as identified in the Table of Contents, and Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Isabella County Transportation Commission. Such information, except for the portion marked as "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 16, 2009

Isabella County Transportation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2008

The intent of the management's discussion and analysis is to provide highlights of the Commission's financial activities for the Fiscal Year ended September 30, 2008. Readers are encouraged to read this section in conjunction with the basic financial statements.

Using this Audit Report

This annual audit report consists of this management's discussion and analysis report, the independent audit's report, and the basic financial statements of the Commission, which include notes that explain in more detail some of the information in the financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets provide information about the activities of Isabella County Transportation Commission for the fiscal year October 1, 2007 to September 30, 2008.

Isabella County Transportation Commission as a Whole

Isabella County Transportation Commission's total net assets decreased approximately 4% from a year ago - decreasing from \$4,879,950 to \$4,678,005. In a condensed format, the table below shows a comparison of the net assets as of 9/30/08 to the prior year 9/30/07.

CONDENSED STATEMENT OF NET ASSETS

	Fiscal Year 2007	Fiscal Year 2008
Current and Other Assets	\$ 1,695,533	\$ 1,837,059
Capital Assets, Net	<u>3,947,809</u>	<u>3,593,715</u>
Total Assets	5,643,342	5,430,774
Current Liabilities	475,613	570,686
Noncurrent Liabilities	<u>287,779</u>	<u>182,083</u>
Total Liabilities	<u>763,392</u>	<u>752,769</u>
Invested in Capital Assets		
Net of Related Debt	3,558,399	3,305,936
Unrestricted	<u>1,321,551</u>	<u>1,372,069</u>
Total Net Assets	<u>\$ 4,879,950</u>	<u>\$ 4,678,005</u>

Isabella County Transportation Commission Activities

Isabella County Transportation Commission's operating revenues increased approximately \$46,485. This was primarily due to an increase in ridership and contract activities. Nonoperating revenue decreased by approximately \$112,610 reflecting a decrease in amounts received from State and Federal capital grants. Other operating expenses increased by \$697,879. Depreciation expense decreased approximately \$6,644 from 2007. As a result, the net decrease in net assets after depreciation was \$201,945. In a condensed format, the table shows a comparison of the revenues and expenses for 2008 and 2007.

Isabella County Transportation Commission
MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2008

Isabella County Transportation Commission Activities - Continued

CONDENSED STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN FUND NET ASSETS

	Fiscal Year <u>2007</u>	Fiscal Year <u>2008</u>
Operating Revenues	\$ 551,628	\$ 598,113
Nonoperating Revenues	<u>3,842,350</u>	<u>3,729,740</u>
Total Revenues	4,393,978	4,327,853
Depreciation Expense	610,273	603,629
Other Operating Expenses	3,217,004	3,914,883
Nonoperating Expenses	<u>13,305</u>	<u>11,286</u>
Total Expenses	<u>3,840,582</u>	<u>4,529,798</u>
Change in Net Assets	553,396	(201,945)
Beginning Net Assets	<u>4,326,554</u>	<u>4,879,950</u>
Ending Net Assets	<u>\$ 4,879,950</u>	<u>\$ 4,678,005</u>

Capital Assets

At the end of fiscal year 2008 Isabella County Transportation Commission had approximately \$7,787,774 in capital assets. This is an increase of \$220,003 from fiscal year 2007 due to the Commission's purchase of new buses, and other equipment.

Long-term Debt

At September 30, 2008, Isabella County Transportation Commission had a long-term debt balance of \$287,779. This loan has an interest rate of 4% and is payable in annual installments with the final payment due on April 18, 2011.

Economic Factors

The Isabella County Transportation Commission increased its ridership by 25% in FY 2008. We anticipate an additional increase in ridership in FY 2009. We expect expenses to increase approximately 10% as a result of providing additional service, mainly in the areas of fuel and wage and fringe benefit costs. Isabella County Transportation Commission will continue to monitor the budget to keep these expenses as low as possible.

Contacting Isabella County Transportation Commission

This audit report is intended to provide our citizens, taxpayers, and customers with the general overview of Isabella County Transportation Commission's finances and to show Isabella County Transportation Commission's accountability for the money that it receives. If you have any questions about this audit, please contact Isabella County Transportation Commission.

BASIC FINANCIAL STATEMENTS

Isabella County Transportation Commission

STATEMENT OF NET ASSETS

September 30, 2008

ASSETS

Current assets

Cash and cash equivalents	\$ 1,455,798
Accounts receivable	22,100
Due from other governmental units	158,719
Land contract receivable - current portion	3,188
Interest receivable	3,365
Inventories	105,664
Prepays	<u>83,839</u>

Total current assets 1,832,673

Noncurrent assets

Land contract receivable	4,386
Capital assets not being depreciated	54,004
Capital assets, net of accumulated depreciation	<u>3,539,711</u>

Total noncurrent assets 3,598,101

TOTAL ASSETS 5,430,774

LIABILITIES

Current liabilities

Accounts payable	44,101
Accrued payroll	57,700
Compensated absences	83,604
Due to other governmental units	222,015
Accrued interest payable	4,796
Other accrued liabilities	14,307
Deferred revenue	38,467
Current portion of loan payable	<u>105,696</u>

Total current liabilities 570,686

Noncurrent liabilities

Loan payable	<u>182,083</u>
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TOTAL LIABILITIES 752,769

NET ASSETS

Invested in capital assets, net of related debt	3,305,936
Unrestricted	<u>1,372,069</u>

TOTAL NET ASSETS \$ 4,678,005

See accompanying notes to financial statements.

Isabella County Transportation Commission

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2008

OPERATING REVENUES	
Sales and charges for services	\$ 598,113
OPERATING EXPENSES	
Administrative	530,338
Operations	3,645,156
Maintenance	343,018
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TOTAL OPERATING EXPENSES	4,518,512
	<hr/>
OPERATING LOSS	(3,920,399)
NONOPERATING REVENUES (EXPENSES)	
Taxes	1,313,748
Intergovernmental	
Federal sources	622,037
State sources	1,430,109
Local sources	211,941
Interest earnings	51,257
Interest expense on long-term debt	(11,286)
	<hr/>
TOTAL NONOPERATING REVENUES (EXPENSES)	3,617,806
	<hr/>
NET LOSS BEFORE CAPITAL GRANT REVENUE	(302,593)
CAPITAL GRANT REVENUE	
Federal sources	82,281
State sources	18,367
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TOTAL CAPITAL GRANT REVENUE	100,648
	<hr/>
CHANGE IN NET ASSETS	(201,945)
Net assets, beginning of year	4,879,950
	<hr/>
Net assets, end of year	\$ 4,678,005
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See accompanying notes to financial statements.

Isabella County Transportation Commission

STATEMENT OF CASH FLOWS

Year Ended September 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 604,817
Cash paid to employees	(1,838,171)
Cash paid to suppliers	<u>(1,932,299)</u>

NET CASH USED BY OPERATING ACTIVITIES (3,165,653)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Taxes	1,313,748
Intergovernmental sources	
State and Federal grants	2,052,146
Local contributions	<u>211,941</u>

NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES 3,577,835

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State and Federal capital assistance	100,648
Payment received for land contract receivable	3,010
Purchase of capital assets	(288,464)
Loss on disposal of assets	38,929
Principal payment on long-term debt	(101,631)
Interest payment on long-term debt	<u>(15,576)</u>

NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES (263,084)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>62,651</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS DURING YEAR 211,749

Cash and cash equivalents, beginning of year 1,244,049

Cash and cash equivalents, end of year \$ 1,455,798

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:

Operating loss	\$ (3,920,399)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	603,629
Decrease in accounts receivable	9,054
Decrease in due from other governmental units	62,384
Decrease in inventories	12,848
Increase in prepaids	(28,467)
Increase in accounts payable	15,727
Increase in accrued wages	22,683
Increase in due to other governmental units	35,704
Increase in compensated absences	14,667
Increase in other accrued liabilities	8,867
Decrease in deferred revenue	<u>(2,350)</u>

NET CASH USED BY OPERATING ACTIVITIES \$ (3,165,653)

See accompanying notes to financial statements.

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Isabella County Transportation Commission (The Commission) is considered a component unit of Isabella County, Michigan for financial accounting and reporting purposes.

The Commission receives Federal and State financial assistance in the form of operating and capital grant funding to support its operation, expand marketing and specialized services, and replace buses and other equipment. The Commission provides demand response services within Isabella County. The Commission also provides special services on a contractual basis to several nonprofit and governmental agencies within the County.

The accounting policies of the Isabella County Transportation Commission conform to accounting principles generally accepted in the United States of America as applicable to governmental units. In accordance with GASB Statement 20, the Commission has elected not to apply the FASB Statements and interpretations issued after November 30, 1989, to its financial statements. The following is a summary of the significant policies:

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Isabella County Transportation Commission. The Commission is considered a "component unit" of the County of Isabella, Michigan's governmental operation. As a result, industry standards require the County to include the financial activities of the Commission in the County's Annual Financial Report. The Annual Financial Report of Isabella County, Michigan is available for public inspection at the Isabella County Courthouse.

2. Basis of Presentation

The accounts of the Commission are organized on the basis of a fund, which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The Commission resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., net total assets) is segregated into invested in capital (net of related debt) and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - Continued

The proprietary fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

5. Cash and Cash Equivalents

The Commission cash and cash equivalents accounts consist of deposits with the County Treasurer and other checking accounts. The balances in the cash accounts are available to meet current operating requirements. The County Treasurer is responsible for investing cash in excess of current requirements in various interest bearing accounts.

6. Inventories

Inventories consist of maintenance and repair parts and are valued at average cost.

7. Land Contract Receivable

Land contract receivable consists of amounts due to the Commission for land sold on contract. Interest of 5.75% is charged on the land contract. The amount due on the land contract is \$7,574, of which, \$3,188 is due within one year and is recorded as a current asset. The balance of \$4,386 is recorded as noncurrent asset.

8. Capital Assets and Long-Term Liabilities

Capital assets, which include buildings, vehicles, and furniture and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$5,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

Buildings	40 years
Vehicles	5-12 years
Furniture and equipment	5 years

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as defined in the R&E Manual and/or as approved by BPT.

The eligible depreciation of \$101,774 includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by BPT.

Long-term liabilities are recognized in the basic financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

9. Compensated Absences

Employees are granted paid leave time in varying amounts. In the event of termination, an employee is paid for certain portions of unused paid leave time. This amount has been recorded in the Statement of Net Assets.

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

10. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

11. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

12. Cost Allocations

The Isabella County Transportation Commission has ten (10) cost allocation plans where the methodology has been approved by the BPT (Bureau of Passenger Transportation). Those cost allocations are for the separation of grant costs, administrative costs, charter service, gasoline charges, new services, rent costs, regional transportation service, CDL training costs, maintenance costs, and JARC (Job Access/Reverse Commute) costs. These cost allocation plans were adhered to in the preparation of the financial statements.

The Isabella County Transportation Commission allocates expenses between various program activities for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor agency.

13. Explanation of Ineligible Expenses per the BPT R&E Manual

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the Commission is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. As of September 30, 2008, the carrying amounts of the Commission's deposits were \$519,864 and the bank balance was \$615,568, of which \$200,000 was insured by the FDIC. The balance of \$415,568 was uninsured and uncollateralized. The Statement of Net Assets caption "Cash and Cash Equivalents" includes \$350 of imprest cash and \$935,584 in cash that is on deposit with the Isabella County Treasurer. It is not practical to determine the insured portion of the cash on deposit with the Isabella County Treasurer.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2008, the Commission did not have any investments that would be subject to rating.

Interest rate risk

The Commission will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Commission's cash requirements.

Concentration of credit risk

The Commission will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Commission will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Commission will do business in accordance with Board approved policy.

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE C: DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units at September 30, 2008, by grant type and year are as follows:

Federal Section 5311 Operating - FY 08	\$ 96,384
Federal Section 5311 Capital - FY 03	12,750
Federal Section 5311 Capital - FY 06	825
Tribal Grant	40,960
JARC - FY 08	<u>7,800</u>
Total	<u>\$ 158,719</u>

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008, was as follows:

	Balance Oct. 1, 2007	Additions	Deletions	Balance Sept. 30, 2008
Capital assets not being depreciated				
Land	\$ 54,004	\$ -	\$ -	\$ 54,004
Capital assets being depreciated				
Buildings and improvements	2,784,633	11,708	-	2,796,341
Buses	3,578,241	123,308	(55,815)	3,645,734
Bus equipment	200,706	-	-	200,706
Route equipment	223,031	55,789	-	278,820
Office and garage equipment	713,084	74,057	(12,646)	774,495
Office furniture	<u>14,072</u>	<u>23,602</u>	<u>-</u>	<u>37,674</u>
Subtotal	7,513,767	288,464	(68,461)	7,733,770
Less accumulated depreciation for:				
Buildings and improvements	(913,743)	(139,382)	-	(1,053,125)
Buses	(1,916,620)	(364,210)	16,886	(2,263,944)
Bus equipment	(200,706)	(-)	-	(200,706)
Route equipment	(22,047)	(30,635)	-	(52,682)
Office and garage equipment	(558,052)	(66,455)	12,646	(611,861)
Office furniture	<u>(8,794)</u>	<u>(2,947)</u>	<u>-</u>	<u>(11,741)</u>
Total accumulated depreciation	<u>(3,619,962)</u>	<u>(603,629)</u>	<u>29,532</u>	<u>(4,194,059)</u>
Net capital assets being depreciated	<u>3,893,805</u>	<u>(315,165)</u>	<u>(38,929)</u>	<u>3,539,711</u>
Net Capital Assets	<u>\$ 3,947,809</u>	<u>\$(315,165)</u>	<u>\$(38,929)</u>	<u>\$ 3,647,715</u>

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the United States Department of Transportation (USDOT) and the Michigan Department of Transportation (MDOT). During the year, the Commission disposed of an asset that was Federally and State funded with a historical cost of \$55,815. The asset disposed of was not fully depreciated. Depreciation expense in the amount of \$603,629 was reported for the year ended September 30, 2008.

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Commission for the year ended September 30, 2008:

	Balance Oct. 1, 2007	Additions	Deletions	Balance Sept. 30, 2008	Amount Due Within One Year
MDOT loan payable	\$ 389,410	\$ -0-	\$ 101,631	\$ 287,779	\$ 105,696

Significant details regarding the outstanding long-term debt (including the current portion) are presented below:

\$1,100,000 MDOT State Infrastructure Bank Loan dated April 18, 2000, due in annual installments of \$75,047 to \$117,207 through April 18, 2011, with interest of 4.00 percent, payable annually. \$ 287,779

The annual requirements to pay the debt principal and interest outstanding for the above loan payable are as follows:

Year Ending September 30,	Principal	Interest
2009	\$ 105,696	\$ 11,511
2010	109,924	7,283
2011	72,159	2,888
	<u>\$ 287,779</u>	<u>\$ 21,682</u>

NOTE F: COMPENSATED ABSENCES

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available on the anniversary date of the employee.

Upon termination, an employee receives payment for the balance of any unused vacation leave, which was credited on the employee's anniversary date. All unused vacation leave in excess of the amounts allowed by respective union and contractual agreements is lost at the end of the employee's respective anniversary year. No unused sick leave is paid upon termination. Therefore, accumulated vacation at September 30, 2008, will be paid from current financial resources and is recorded as a current liability in the amount of \$83,604.

NOTE G: PROPERTY TAX REVENUES

The Isabella County Transportation Commission property tax is levied in December on the State Equalized Valuation of property located in the County of Isabella as of the preceding December. Real and personal property in the County for the current levy was assessed and equalized at approximately \$1.529 billion representing 50% of estimated current market value. In August 2004, the Isabella County Transportation Commission's tax rate of 1.00 mills was renewed for three (3) years, expiring in December 2007. For the year ended September 30, 2008, the Isabella County Transportation Commission levied .90 mills.

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE H: DEFERRED COMPENSATION PLAN

Isabella County Transportation Commission offers its employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The assets of the plans are held in trust as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The trust requirement was designed by the Internal Revenue Service to help prevent participants from losing their retirement benefits to the claims of plan Sponsor's creditors. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of the Section 457 plan, and the assets may not be diverted to any other use.

The Administrators are agents of Isabella County for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the Commission's financial statements.

NOTE I: RETIREMENT PLAN

Plan Description

The Commission participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., salary) employees of the Commission. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

Covered employees contribute 2.5% of their annual salary to the retirement system. The Commission is required to contribute up to 8% of the annual salaries of covered employees to fund the system.

Annual Pension Cost

For year ended September 30, 2008, the Commission's annual pension cost of \$36,518 for the plan was equal to the Commission's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.08 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty (30) years.

Three (3) year trend information

	As of December 31,		
	2005	2006	2007
Actuarial value of assets	\$ 726,413	\$ 831,028	\$ 941,146
Actuarial accrued liability (AAL) (entry age)	1,088,110	1,212,086	1,323,785
Unfunded AAL	361,697	381,058	382,639
Funded ratio	67 %	69 %	71 %
Covered payroll	456,406	438,777	465,053
UAAL as a percentage of covered payroll	79 %	87 %	82 %

Isabella County Transportation Commission

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE I: RETIREMENT PLAN - CONTINUED

	Year Ended September 30,		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual pension cost	\$ 32,304	\$ 30,754	\$ 36,518
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the MERS actuarial reports as of December 31, 2005, 2006 and 2007.

NOTE J: RISK MANAGEMENT

The Commission carries commercial insurance for the risk of loss due to workers' compensation claims.

The Commission is a member of the Michigan Transit Liability Trust Fund ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities. This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of the Commission.

The Commission pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums. Annually, the Commission receives notification from the Pool of retrospective claims adjustments based on the actual claims experience of the Commission and other members of the Pool. These retrospective claims adjustments, determined by the Pool, are accrued annually by the Commission upon notification.

The Commission also participates in a pool, the Michigan Municipal Risk Management Authority, with other municipalities for property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Commission has not been informed of any special assessments being required.

NOTE K: CONTINGENT LIABILITIES

Under the terms of various Federal and State grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

NOTE L: COMPLIANCE REQUIREMENTS

The methodology used for compiling mileage on OAR Schedules (Nonurban and JARC) is an adequate and reliable methodology for recording vehicle mileage.

No capital money was used to pay for operating expenses and none are included in total expenses to be reimbursed with State Formula Funds.

Ineligible expenses are classified appropriately according to the definition in the local public transit revenue and expense manual. Expenses associated with generating local revenues have been subtracted out as ineligible.

OTHER SUPPLEMENTARY INFORMATION

Isabella County Transportation Commission

SCHEDULE OF LOCAL REVENUES

Year Ended September 30, 2008

Passenger fares	\$ 335,342
Contract fares	262,771
Property taxes	1,313,748
Advertising	8,520
Interest	51,257
Reimbursements	77,108
Sale of maintenance services	34,227
Other	<u>92,086</u>
TOTAL LOCAL REVENUES	<u><u>\$ 2,175,059</u></u>

Isabella County Transportation Commission
EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended September 30, 2008

Federal and State Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Prior Years' Expenditures	Award Amount Remaining
				Total	Federal	State		
U.S. DEPARTMENT OF TRANSPORTATION								
Passed through Michigan Department of Transportation								
Federal Transit Capital Grants	20.500							
Capital Grant - Section 5309 (80/20)		2002-0053/Z15	\$ 364,418	\$ 2,724	\$ 2,179	\$ 545	\$ 361,694	\$ -0-
Capital Grant - Section 5309 (80/20)		2002-0235/Z3	280,921	5,460	4,368	1,092	275,461	-0-
Formula Grants for Other than Urbanized Areas ^(a)	20.509							
Operating Assistance - Section 5311 (FY08)		2007-0235/Z3	634,152	609,693	609,693	-	-	24,459
Operating Assistance - Section 5311 (FY07)		2007-0253/Z2	N/A	(6,756)	(6,756)	-	-	-0-
Capital Assistance - Section 5311 (80/20)		2002-0053/Z7	199,750	83,651	66,921	16,730	116,099	-0-
Capital Assistance - Section 5311 (87/13)		2002-0053/Z17	98,000	8,813	8,813	-	30,728	58,459
Rural Transit Assistance Program (RTAP)		N/A	3,500	3,500	3,500	-	-	-0-
Job Access Reverse Commute (50/50)	20.516	2007-0235/Z4	31,200	31,200	15,600	15,600	-	-0-
MICHIGAN DEPARTMENT OF TRANSPORTATION								
Operating Assistance - Act 51	N/A							
Nonurban		N/A	1,432,820	1,377,556	-	1,377,556	-	55,264
Prior year reconciliations - FY05		N/A	N/A	36,953	-	36,953	-	-0-
TOTALS			\$ 3,044,761	\$ 2,152,794	\$ 704,318	\$ 1,448,476	\$ 783,982	\$ 138,182

^(a) Denotes major program.

Isabella County Transportation Commission

SCHEDULE OF OPERATING AND CONTRACT EXPENSES

Year Ended September 30, 2008

	Nonurban	07-0235 Z1 Job Access	Total
Labor	\$1,859,342	\$ 16,179	\$ 1,875,521
Payroll taxes and fringe benefits	1,012,838	8,272	1,021,110
Professional services	71,446	573	72,019
Materials and supplies	684,668	5,535	690,203
Utilities	69,902	703	70,605
Insurance	129,355	1,007	130,362
Taxes and fees	1,821	21	1,842
Leases and rentals	6,351	54	6,405
Miscellaneous expenses	46,487	329	46,816
Interest on long-term debt	11,151	135	11,286
Depreciation	598,107	5,522	603,629
TOTAL EXPENSES	<u>\$4,491,468</u>	<u>\$ 38,330</u>	<u>\$ 4,529,798</u>

Isabella County Transportation Commission

OAR SCHEDULE 4R
NONURBAN REGULAR SERVICE REVENUE REPORT

Year Ended September 30, 2008

Code	Description	Amount
401	Farebox revenue	
40100	Passenger fares	\$ 335,342
40200	Contract fares	262,771
406	Auxiliary transportation revenue	
40615	Advertising	8,520
407	Nontransportation revenue	
40710	Sales of maintenance services	34,227
40799	Other nontransportation revenue	51,126
408	Local revenue	
40800	Tax levy	1,313,748
409	Local revenue	
40999	Insurance reimbursement	77,108
40999	Tribal Grant	40,960
411	State formula and contracts	
41101	State operating assistance	1,414,509
413	Federal contracts	
41301	Federal section 5311	602,937
41398	RTAP	3,500
414	Other revenue	
41400	Interest Income	51,257
	TOTAL NONURBAN SERVICE REVENUE	\$ 4,196,005

Isabella County Transportation Commission

OAR SCHEDULE 4E
NONURBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2008

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50101	Operator's salaries and wages	\$ 1,283,291	\$ -	\$ -	\$ 1,283,291
50102	Other salaries and wages	-	162,186	206,897	369,083
50103	Dispatchers' salaries and wages	206,968	-	-	206,968
502	Fringe benefits				
50200	Payroll taxes and fringe benefits	759,431	90,008	127,206	976,645
50201	Pensions	16,113	5,298	14,782	36,193
503	Services				
50302	Advertising	-	-	15,639	15,639
50305	Audit	-	-	6,806	6,806
50399	Professional services	27,031	8,539	13,431	49,001
504	Materials and supplies				
50401	Fuel and lubricants	486,781	324	725	487,830
50402	Tires and tubes	19,142	609	-	19,751
50404	Major purchases	7,987	-	-	7,987
50499	Other materials and supplies	128,681	33,200	7,219	169,100
505	Utilities				
50500	Utilities	-	-	69,902	69,902
506	Insurance				
50603	Liability Insurance	129,121	184	50	129,355
507	Taxes and fees				
50700	Taxes and fees	-	-	1,821	1,821
509	Miscellaneous expenses				
50902	Travel, meetings and training	4,983	-	4,854	9,837
50903	Association dues and subscriptions	2,209	399	6,563	9,171
50909	Loss on disposal of assets	6,413	-	-	6,413
50999	Other miscellaneous	1,084	2,525	17,457	21,066
511	Interest				
51101	Interest on long-term debt	-	-	11,151	11,151
512	Operating leases and rentals				
51200	Operating leases and rentals	3,864	691	1,796	6,351
513	Depreciation				
51300	Depreciation	531,355	36,071	30,681	598,107

Isabella County Transportation Commission

OAR SCHEDULE 4E
NONURBAN REGULAR SERVICE EXPENSE REPORT - CONTINUED

Year Ended September 30, 2008

Code	Description	Operations	Maintenance	Administrative	Total
550	Less ineligible expenses				
55005	Ineligible local contracts	\$ 81,836	\$ -	\$ -	\$ 81,836
55006	Interest	-	-	11,151	11,151
55007	Depreciation	441,990	29,128	25,784	496,902
55008	Other	-	-	4,151	4,151
55010	Expenses related to auxiliary and nontransportation revenue	41,261	-	-	41,261
560	Less ineligible expenses				
56001	Expenses related to the sale of maintenance service	-	33,875	-	33,875
570	Less ineligible expenses				
57099	Other ineligible Federal/State/Local	-	-	1,821	1,821
574	Less ineligible expenses				
57402	RTAP	-	-	3,476	3,476
580	Less ineligible expenses				
58009	Loss on disposal of assets	6,413	-	-	6,413
Total expenses					4,491,468
Total ineligible expenses					680,886
Total eligible expenses					<u>\$ 3,810,582</u>

Isabella County Transportation Commission

OAR SCHEDULE 4N
NONURBAN REGULAR SERVICE NONFINANCIAL REPORT (UNAUDITED)

Year Ended September 30, 2008

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles ⁽¹⁾	969,247	92,269	49,825	1,111,341

⁽¹⁾ The methodology used for compiling vehicle mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Isabella County Transportation Commission

OAR SCHEDULE 4R
JARC SERVICE REVENUE REPORT

Year Ended September 30, 2008

<u>Code</u>	<u>Description</u>	<u>Amount</u>
411	State formula and contracts	
41199	Other state contracts and reimbursements	\$ 15,600
413	Federal contracts	
41399	Other federal contracts and reimbursements	<u>15,600</u>
	TOTAL NONURBAN SERVICE REVENUE	<u>\$ 31,200</u>

Isabella County Transportation Commission

OAR SCHEDULE 4E
JARC SERVICE EXPENSE REPORT

Year Ended September 30, 2008

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50101	Operator's salaries and wages	\$ 11,190	\$ -	\$ -	\$ 11,190
50102	Other salaries and wages	-	1,426	1,780	3,206
50103	Dispatchers' salaries and wages	1,783	-	-	1,783
502	Fringe benefits				
50200	Payroll taxes and fringe benefits	6,134	787	1,026	7,947
50201	Pensions	145	47	133	325
503	Services				
50302	Advertising	-	-	100	100
50305	Audit	-	-	94	94
50399	Professional services	260	61	58	379
504	Materials and supplies				
50401	Fuel and lubricants	4,061	1	5	4,067
50402	Tires and tubes	152	3	-	155
50404	Major Purchases	13	-	-	13
50499	Other materials and supplies	910	278	112	1,300
505	Utilities				
50500	Utilities	-	-	703	703
506	Insurance				
50603	Liability insurance	1,007	-	-	1,007
507	Taxes and fees				
50700	Taxes and fees	-	-	21	21
509	Miscellaneous expenses				
50902	Travel, meeting and training	34	-	55	89
50903	Association dues and subscriptions	14	1	87	102
50909	Loss on disposal of assets	16	-	-	16
50999	Other miscellaneous	1	28	93	122
511	Interest				
51101	Interest on long-term debt	-	-	135	135
512	Operating leases and rentals				
51200	Operating leases and rentals	36	1	17	54
513	Depreciation				
51300	Depreciation	4,946	351	225	5,522

Isabella County Transportation Commission

OAR SCHEDULE 4E
JARC SERVICE EXPENSE REPORT - CONTINUED

Year Ended September 30, 2008

Code	Description	Operations	Maintenance	Administrative	Total
550	Less ineligible expenses				
55006	Interest	\$ -	\$ -	\$ 135	\$ 135
55007	Ineligible Depreciation	4,466	301	186	4,953
55008	Insurance Rebate	1,272	-	1	1,273
55010	Expenses related to auxiliary and nontransportation revenue	354	-	-	354
560	Less ineligible expenses				
56001	Expenses related to the sale of maintenance service	-	352	-	352
580	Less ineligible expenses				
58009	Ineligible Loss on Disposal of Assets	16	-	-	16
Total expenses					38,330
Total ineligible expenses					<u>7,083</u>
Total eligible expenses					<u>\$ 31,247</u>

Isabella County Transportation Commission

OAR SCHEDULE 4N
JARC SERVICE NONFINANCIAL REPORT (UNAUDITED)

Year Ended September 30, 2008

<u>Code</u>	<u>Description</u>	<u>Weekday</u>
611	Vehicle Miles ⁽¹⁾	8,926

⁽¹⁾ The methodology used for compiling vehicle mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Isabella County Transportation Commission

OPERATING ASSISTANCE CALCULATION

Year Ended September 30, 2008

	Nonurban	JARC
Total expenses	\$ 4,491,468	\$ 38,330
Less ineligible expenses		
Local contracts	81,836	-
Interest	11,151	135
Depreciation	496,902	4,953
Other	4,151	1,273
Expenses related to auxiliary and nontransportation revenue	41,261	354
Expenses related to sale of maintenance service	33,875	352
Other ineligible Federal/State/Local	1,821	-
RTAP	3,476	-
Loss on disposal of assets	6,413	16
Total ineligible expenses per R&E manual	680,886	7,083
TOTAL STATE AND FEDERAL ELIGIBLE EXPENSES	\$ 3,810,582	\$ 31,247
Eligible expenses for State reimbursement	\$ 3,810,582	\$ 31,247
x Reimbursement percentage (JARC not to exceed \$15,600)	0.361508	0.5000
State operating assistance	\$ 1,377,556	\$ 15,600
Eligible expenses for Federal reimbursement	\$ 3,810,582	\$ 31,247
x Reimbursement percentage (JARC not to exceed \$15,600)	0.1600	0.5000
Federal operating assistance	\$ 609,693	\$ 15,600

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Isabella County Transportation Commission
Mt. Pleasant, Michigan

We have audited the financial statements of the Isabella County Transportation Commission as of and for the year ended September 30, 2008, and have issued our report thereon dated January 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described as 2007-1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiency described above at 2007-1 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Isabella County Transportation Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Isabella County Transportation Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Isabella County Transportation Commission's response, and accordingly we express no opinion on it.

This report is intended for the information of management and the Board of Commissioners of the Isabella County Transportation Commission, others within the entity, the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 16, 2009

Principals

Dale J. Abraham, CPA
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Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Commissioners
Isabella County Transportation Commission
Mt. Pleasant, Michigan

Compliance

We have audited the compliance of the Isabella County Transportation Commission with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that is applicable to each of its major federal programs for the year ended September 30, 2008. The Isabella County Transportation Commission's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the Isabella County Transportation Commission's management. Our responsibility is to express an opinion on the Isabella County Transportation Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Isabella County Transportation Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Isabella County Transportation Commission's compliance with those requirements.

In our opinion, the Isabella County Transportation Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

Internal Control Over Compliance

The management of the Isabella County Transportation Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Isabella County Transportation Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Isabella County Transportation Commission's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management and the Board of Commissioners of the Isabella County Transportation Commission, others within the entity, the Federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

January 16, 2009

Isabella County Transportation Commission
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u>	Yes	<u> </u>	No
Significant deficiencies identified that are not considered to be material weakness(es)?	<u> </u>	Yes	<u> X </u>	None reported
Noncompliance material to financial statements noted?	<u> </u>	Yes	<u> X </u>	No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u>	Yes	<u> X </u>	No
Significant deficiencies identified that are not considered to be material weakness(es)?	<u> </u>	Yes	<u> X </u>	None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 501(a) of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.509	Formula Grants for Other than Urbanized Areas

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

Section II - Financial Statement Findings

2007-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Condition: Material journal entries were proposed by the auditors to properly account for revenue and receivables related to federal grants. These misstatements were not detected by the Commission's internal control over financial reporting. A similar issue was noted and reported in our audit comments last year.

Isabella County Transportation Commission

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended September 30, 2008

Section II - Financial Statement Findings - continued

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Commission's internal controls.

Recommendation: We recommend that the Commission take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: We are planning to hire a local CPA firm to review year-end closing and adjusting entries for FY 2009 and to advise us if further adjustments are necessary.

Section III - Federal Award Findings and Questioned Costs

None

Isabella County Transportation Commission

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2008

FINDINGS/NONCOMPLIANCE

Control Deficiencies and Material Weaknesses Related to Internal Controls Over the Financial Statements.

2007-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the adjustment of grant revenues and receivables were proposed by the auditors. These misstatements were not detected by the Commission's internal control over financial reporting.

Resolution: This issue was noted during the current audit and repeated in the Schedule of Findings and Questioned Costs. We do not consider this issue resolved.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.